

September 10, 2020

Washington State Board for Community & Technical Colleges: Testimony on Customized Training Tax Credit Review

The Washington State Board for Community & Technical Colleges (SBCTC) administers the Customized Training Program (CTP). SBCTC staff worked closely with Dana Lynn, Senior Research Analyst, Joint Legislative Audit and Review Committee (JLARC), to collect and analyze data on the history of CTP projects. This testimony follows the guidelines for providing testimony to the Citizen Commission and includes responses to each of the four required questions.

Question 1: *Is there evidence that the tax preference achieved its purpose, as noted in the 2020 tax preferences reports?*

The stated objective of the Customized Training Program (CTP) tax credit is to *“attract and retain new and expanding businesses in Washington.”* The Legislative Auditor is recommending the tax credit expire on July 1, 2021. The recommendation is based on analysis that the CTP tax preference “has not attracted new businesses and it is unlikely to influence business decisions on where to locate.”

Data collected by the JLARC shows that between 2007 and 2020, 61 businesses participated in this program, and that 19% were new businesses. However, the stated legislative objective for the CTP also includes business retention and business expansion. Data reported by the Legislative Auditor shows that 89% of the participating businesses are still active businesses in Washington. In addition, 100% of the participating businesses have used the CTP to train existing or new employees with a focus on growth and expansion. The majority of the participating businesses have been in the manufacturing sector. Participating businesses have also added new processes or have brought processes to Washington that were previously conducted overseas.

The CTP attracts new business to Washington and has also assisted Washington businesses to expand and continue operating in Washington. The CTP is a major lever offered by Department of Commerce to businesses who are considering a decision to locate in Washington.

Question 2: *Do you believe this preference provides benefits in addition to those stated in its intended or inferred purpose?*

Washington is one of only 30 states who offers specific training programs for up-skilling/backfilling business employees in our workforce. The State of Washington is considered a leader in the development of incumbent worker training programs. The National Skills Coalition (NSC) recently published a report that encourages the development of policy to expand up-skilling of employees as a tool for economic recovery. Washington created the CTP to expand the relationship between businesses and the highly successful workforce programs in our community and technical college system. In order to participate in the CTP, businesses work directly with a college to create customized training specifically designed to meet their workforce needs. Not only does this relationship allow for a nimble response to business needs, it also creates an opportunity for employees to be trained onsite at their place of business and during their working hours.

On August 18, 2020 the National Skills Coalition (NSC) released recommendations that provide a roadmap for state policymakers to respond to employer needs for upskilling and reemployment of their employees. The report is called [Funding Resilience: How public policies can support businesses in upskilling workers for a changing economy](#), and includes:

- The strengths and shortcomings of state incumbent worker training funds

- Recommendations for better state policies
- The major barriers preventing widespread replication of effective practices, and revenue-neutral solutions to change them.

The CTP is an example of the type of program that will be needed to enhance business economic recovery during the current COVID-19 pandemic. The CTP is the only program in the State of Washington that provides an opportunity for businesses to contract with colleges through an interest free revolving loan for the upfront expenses to provide upskilling of their incumbent workers.

Question 3: *Do you believe the taxes associated with any increased economic activity stimulated by this tax preference exceed the preference's loss of tax revenue?*

Since the CTP began in 2006 there have been 3,177 Washington workers trained with enhanced workforce skills. A little more than \$2,000,000 has been expended to cover customized training through the community and technical colleges. At the conclusion of training the business repays 100% of the CTP loan and receives a tax credit for 50% on their payments. The CTP provides a resource that allows small businesses to conduct training even when they do not have the up-front funding available to do so. The amount of the tax credit issued since the creation of the program has been approximately \$1,000,000, which averages \$71,000 per year over the span of the 14-year program. The benefit of the CTP to increase and expand business revenue and the associated tax revenue, far exceeds the small loss of tax revenue created by the tax credit. As reported by the Legislative Auditor, the amount of the tax credit received by the business is a very small part of their annual tax expenditure.

Question 4: *Do you believe this preference has negative consequences? For example, were other industries, workers, or the environment harmed by activities stimulated by this tax preference?*

The only shortfall in the design of the CTP is the amount of funding allocated to provide customized training. The resources appropriated to the revolving loan fund to support the program has varied over the history of the program. At one point the fund contained \$3,500,000. At this time the total funding is about \$300,000. Increasing the level of funding would strengthen the program and significantly impact the depth of customized training available to businesses for their new and incumbent workforce.

SBCTC Recommendation:

The State Board for Community & Technical Colleges recommends the tax credit be continued to incentivize businesses to access training resources that provide new and incumbent worker upskilling and backfilling that supports business retention and expansion in Washington State. Businesses will need access to unique programs like CTP in order to respond to the changing economy in the face of the COVID-19 Pandemic. Having programs like the CTP available in Washington does impact business decisions for where they locate and where they plan to expand operations. Through the CTP, SBCTC has worked side-by-side with the State Department of Commerce to influence the decision of new and expanding businesses to locate and expand in the State of Washington. We recommend that the tax credit be continued as a part of Washington's successful Customized Training Program.

Cordially Submitted,



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